SHELBY COUNTY RETIREMENT SYSTEM

Financial Statements
For the Years Ended June 30, 2008 and 2007

SHELBY COUNTY RETIREMENT SYSTEM

Contents

THOMPSON DUNAVANT

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Chairman and Members of the Shelby County
Retirement System Board of Administration
Shelby County Retirement System
Memphis, Tennessee

We have audited the accompanying statements of plan net assets of Shelby County Retirement System as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the management of Shelby County Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Shelby County Retirement System at June 30, 2008 and 2007, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008 on our consideration of the internal control of Shelby County Retirement System over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial satements taken as a whole. The required supplementary information disclosures under Governmental Accounting Standards Board Statement No. 25 are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Shelby County Retirement System has not presented the management's discussion and analysis as required by GASB 34, "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*," that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Thompson Dunavant PLC

Memphis, Tennessee
October 29, 2008

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Plan Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 25,894,195	$ 30,514,253
Receivables		
Accrued interest and dividends	2,562,810	3,903,457
Investments sold	8,112,187	1,841,103
Total receivables	10,674,997	5,744,560
Investments		
Domestic equity	415,698,225	478,012,718
Fixed income	167,715,980	177,101,515
International equity	159,350,730	165,132,475
Hedge funds	158,897,578	158,378,070
Limited partnership interests	25,936,287	28,570,511
Private real estate and infrastructure	11,297,944	6,709,410
Total investments	938,896,744	1,013,904,699
Total assets	975,465,936	1,050,163,512
Liabilities		
Accounts payable and accrued expenses	1,110,671	1,524,539
Investments purchased	1,853,101	3,422,012
Total liabilities	2,963,772	4,946,551
Net assets held in trust for pension benefits	$ 972,502,164	$ 1,045,216,961

The accompanying notes are an integral part of these financial statements.

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
Additions (reductions)		
Contributions		
Employer	$ 18,744,136	$ 18,758,647
Plan members	8,930,175	8,191,400
Total contributions	27,674,311	26,950,047
Investment income (loss)		
Net appreciation (depreciation) on investments	(65,259,020)	151,197,809
Interest	10,533,164	11,854,438
Dividends	6,319,769	5,899,856
Other income	1,230,156	550,633
	(47,175,931)	169,502,736
Less investment expenses	4,941,914	4,970,832
Net investment income (loss)	(52,117,845)	164,531,904
Total additions (reductions)	(24,443,534)	191,481,951
Deductions		
Benefit payments	43,676,102	41,541,506
Refund of member contributions	3,109,929	1,878,662
Administrative expenses	1,485,232	1,288,871
Total deductions	48,271,263	44,709,039
Net increase (decrease)	(72,714,797)	146,772,912
Net assets held in trust for pension benefits		
Beginning of year	1,045,216,961	898,444,049
End of year	$ 972,502,164	$ 1,045,216,961

The accompanying notes are an integral
part of these financial statements.

Note 1 - Summary of significant accounting policies

The Shelby County Retirement System ("SCRS"), is a single employer public employee retirement system (PERS) established by Shelby County, Tennessee for the employees of Shelby County, Tennessee. SCRS is administered by The Shelby County Retirement System Board of Administration (the "Board"), the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. SCRS is considered part of the Shelby County, Tennessee (the "County") financial reporting entity and is included in the County's financial reports as a pension trust fund.

Measurement focus and basis of accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, U.S. Treasury bills, short-term investment funds, and other temporary investments with an original maturity date of three months or less from the date of acquisition.

Investments sold and investments purchased

Receivables for investments sold represent amonts due from brokers for unsettled security sales transactions at year end. Liabilities for investments purchased represent amonts due to brokers for unsettled security purchases at year end.

Investments

Investments are reported at fair value. Investments in equity securities, corporate bonds, and issues of U.S. Government and government-backed obligations are valued at the last reported sales price of the fiscal year end. International securities reflect current exchange rates in effect at June 30, 2008 and 2007.

Investments in private investment companies consisting of interests in limited partnerships, hedge funds, and private real estate and infrastructure limited liability companies and funds are valued at estimated fair value as provided by the investment manager of the investee company.

Note 1 - Summary of significant accounting policies (continued)

Investments (continued)

Purchases and sales of securities are recorded on a trade-date basis. Consequently, investments include certain pending but unsettled purchases and investments have been reduced for certain pending but unsettled sales. There are no investments that represent five percent (5%) or more of net assets held in trust for pension benefits as of June 30, 2008 and 2007. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires SCRS's management to make estimates and assumptions which affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 - Plan description and contribution information

General

The Shelby County Retirement System consists of three component plans, Plan A, Plan B, and Plan C each governed by a separate plan document, and the Administration and Trust Agreement of the Shelby County Retirement System (the "Trust Agreement"). The Plans and the Trust Agreement were established by various resolutions of the Shelby County Commission having the force and effect of legislation.

Substantially all full-time and permanent part-time employees of the County (including its component units) are required as a condition of employment to participate in one of the plans of SCRS. Employees exempted from the requirement and, in fact, not permitted to participate consist primarily of Shelby County Board of Education employees and employees who are covered by Social Security.

Plan B, the original plan, is a contributory defined benefit pension plan for employees hired prior to December 1, 1978 and thereafter closed to new entrants. Until July 1, 2000, Plan A was a non-contributory defined benefit pension plan for those eligible employees hired on and after December 1, 1978 and for those employees who elected to transfer to Plan A from Plan B before January 1, 1981. Effective July 1, 2000, Plan A was amended to mandate employee contributions for certain employees defined as "Public Safety Employees," including but not limited to certain employees of the County Sheriff's Office, the County Fire Department, and the County Corrections Center.

The Trust Agreement contains all administrative provisions applicable to Plans A, B and C, and further established a formal common trust to hold all of the assets of the plans.

Prior to 1990, for financial reporting purposes, Plan A and Plan B were accounted for separately. Beginning in 1990, both plans have been accounted for as a single reporting entity, whereby all assets of SCRS are available for payment of benefits to participants of either plan.

Note 2 - Plan description and contribution information (continued)

All participants in Plan B are fully vested, and all active participants have now completed more than 25 years of service. Participants may retire after completing 25 years of service at any age or after completing 10 years of service upon attaining age 60 (age 55 for deputy sheriffs). The annual retirement benefit is the product of the average of the participant's highest three consecutive years' eligible compensation (or, if he had completed 10 years of service before September 1, 1977, his highest 12 months' eligible compensation) and 2.7% a year for up to 25 years of service and an additional 1% per year for up to 10 further years of service.

Plan B provides disability benefits for disabled participants and survivor benefits for certain survivors of retirees and of participants who die while actively employed.

Participants in Plan A accrue non-forfeitable benefits after having completed seven and one-half years of service (or attainment of age 65 regardless of years of service), although the benefits of participants who terminated before January 1, 1998 were vested only after completion of 10 years of service. A participant's normal retirement age is age 65. If a participant retires at or after his or her normal retirement age, his or her monthly retirement benefit is a percentage of his or her highest 36 consecutive months' earnings, with the percentage based upon a mathematical table in the plan document that takes into account the participant's years of service and his or her age. Public Safety Employees are entitled to retire before age 65 with unreduced benefits if they have completed 25 years of service as Public Safety Employees and under certain other circumstances as defined by the Plan Agreement.

A vested participant of Plan A may also elect early retirement any time after attaining age 55. The early retirement monthly benefit is calculated using a different table that takes into account the same factors. A vested participant who terminates before age 55 may elect to begin receiving monthly benefits at any time after the participant attains age 55 (but no later than age 65), and his or her benefits are calculated under a third table. If, however, the present value of a vested participant 's accrued benefit is less than $20,000, the distribution is required to be made in the form of a lump sum payment. If the present value of the accrued benefit is between $20,000 and $35,000, the participant may elect to receive a lump sum distribution.

Plan A also provides disability benefits for participants who became disabled before January 1, 2002, and it provides survivor benefits for certain survivors of retirees and of participants who die while actively employed.

Member contributions are made by Plan B participants in the amount of 8% of their earnings (or 8% of a lesser amount of their earnings in the case of participants with more than 35 years of service) and 2.65% of earnings for Public Safety Employees. Employer contributions to the Trust are funded currently in an amount determined by the System's actuary to fund the benefits of both Plan A and Plan B participants.

Plan C became effective September 1, 2005. Participation is mandatory for eligible employees hired after February 28, 2005. Each Plan A active participant as of February 28, 2005 had the option to stay in Plan A or to move his participation to Plan C. Public Safety Employees in Plan A were required to move to Plan C to preserve their right to retire with unreduced benefits with 25 years of service; otherwise, they reverted to the original Plan A normal retirement provisions. All elections have now been made.

Note 2 - Plan description and contribution information (continued)

Each Plan C participant will be required to contribute 6% of his or her base compensation to SCRS, which also contains the assets of Plans A and B. These contributions will accrue "interest" at the rate of 5% annually, all of which will be reflected in a bookkeeping account. At the end of each calendar quarter, the County will contribute 50% of each participant's contributions, and a separate bookkeeping account will be maintained. Interest will be credited to this account in the same percentage and in the same way as interest is added to the participant contributions account.

The participant's own contributions account is fully vested at all times. The County's matching account is vested only after the participant has completed seven and one-half years of service. Credited service will be calculated in exactly the same way as it is calculated in Plan A.

Plan C contains a transition period. If a Plan A participant who elects to become a participant in Plan C terminates employment within five years, his pension benefits will be calculated under Plan A, not Plan C. For each Plan A Public Safety Employee, however, the number of years the participant contributed to Plan A as a public safety employee will count toward the five year transition period. If the five year transition period is not satisfied before a participant's termination, then, (a) if the participant was not a Publc Safety Employee while under Plan A, his or her Plan C participant contributions account will be refunded to him or her, and (b) if the participant was a Public Safety Employee while under Plan A, the amount of the refund will be the difference between his or her Plan C participant contributions account and the employee contributions account the participant would have had, if the original 25-and-out plan had remained in effect and the participant had remained an active participant.

If the transitional period is satisfied, a Plan C participant will be entitled to the following benefits. Upon termination, but before beginning to receive a monthly pension, the participant will have the right to withdraw from SCRS an amount equal to the lesser of (1) the sum of his or her participant contributions account and (if vested) his or her matching account or (2) up to $50,000. This withdrawal is called an "optional cash distribution." No optional cash distributions may be made before termination of employment or after beginning to receive a monthly pension.

A Plan C participant will be entitled to an unreduced "normal retirement pension" benefit if the participant has at least 25 years of credited service upon termination, regardless of his or her age. If a participant attains age 65, having completed at least seven and one-half years but less than 25 years of credited service, the participant is also entitled to retire with a "normal" retirement pension. The amount of the normal retirement pension is the higher of two calculated amounts. In the first calculation, three figures are multiplied together: (1) the participant's "final average earnings" (determined in the same way as in Plan A); (2) the participant's years of credited service (no more than 35); and (3) 2.35%; the result is then reduced actuarially by the amount of any optional cash distributions the participant has elected to receive. The second figure is calculated by actuarially converting the sum of his or her participant contributions account and his or her matching account (after reduction for all optional cash distributions) into a monthly pension for life or, if the participant is married, into a 75% joint and survivor pension.